

Message Text

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ACTION EB-07

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SUBJECT: JAPAN-SOVIET ECONOMIC RELATIONS

REF: TOKYO 7988

SUMMARY: JAPAN-SOVIET ECONOMIC RELATIONS APPEAR TO BE
BACK ON THEIR NORMAL, IF A BIT BUMPY ROAD. TWO-WAY TRADE
MAY REACH DOLS 14 BILLION IN 1980 AND MORE SIBERIAN RESOURCE
DEVELOPMENT PROJECTS WILL PROBABLY BE UNDERTAKEN. BUT
THE JAPANESE REMAIN ADAMANTLY OPPOSED TO A GOVERNMENTAL
ECONOMIC COOPERATION-AGREEMENT AND TO EXTENDING THE
SOVIETS A GENERAL LINE OF EXIMBANK CREDIT. END SUMMARY.

1. WITH THE SIGNING OF THE 5-YEAR TRADE AND PAYMENTS
AGREEMENT (REF.) BY FOREIGN TRADE MINISTER PATOLICHEV AND
VISIT THIS WEEK BY VICE MINISTER IVANOV, SOVIET-JAPANESE
ECONOMIC RELATIONS ARE RETURNING TO MORE NORMAL PATTERNS
AFTER MONTHS OF ACIDITY ENGENDERED BY THE FISHING
NEGOTIATIONS. WE HAVE TALKED WITH FOREIGN OFFICE,
KEIDANREN AND SOVIET TRADE REPRESENTATIVES IN TOKYO
WHO ARE CONFIDENT THAT TRADE AND OTHER ECONOMIC
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RELATIONS WILL EXPAND, BUT NO ONE HARBORS ANY ILLU-
SIONS THAT THINGS WILL ALWAYS GO SMOOTHLY.

2. TWO WAY TRADE REACHED A RECORD DOLS 3.4 BILLION LAST
YEAR, ACCORDING TO JAPANESE FOB-CIF FIGURES, WITH JAPAN
RUNNING ABOUT A DOLS 1 BILLION SURPLUS. ALTHOUGH THE
FIVE YEAR PAYMENTS AGREEMENT ENVISAGES DOLS 10 BILLION

IN TRADE FROM 1976 TO 1980, BOTH THE JAPANESE AND THE SOVIETS HERE EXPECT TRADE WILL ACTUALLY REACH DOLS 13-14 BILLION. IN THE IMMEDIATE FUTURE, SOVIET TRADE REPS (KRUCHINEN AND SVARIN) PREDICTED THAT TRADE DURING 1977 WILL REMAIN ROUGHLY AT THE SAME OVERALL LEVEL AS LAST YEAR BUT THAT THE SOVIET DEFICIT WILL FALL TO NO MORE THAN DOLS 700 ON AN FOB/CIF BASIS, DUE MAINLY TO A DECLINE IN SOVIET IMPORTS.

3. ACCORDING TO THE SOVIETS, PURCHASES OF LARGE DIAMETER STEEL PIPE WILL DECLINE BY 40 PERCENT UNDER LAST YEAR'S LEVELS, WHILE ORDERS FOR MACHINERY, ESPECIALLY CHEMICAL MACHINERY WILL RISE. THE DECLINE IN SOVIET INTEREST IN JAPANESE STEEL PIPE IS DUE, ALLEGEDLY, TO INCREASED SOVIET CAPACITY AND OFFERS OF SUPPLY FROM ITALY AND WEST GERMANY. THE SOVIETS ALSO EXPECT JAPAN WILL CONTINUE TO OFFER EXIMBANK FINANCING FOR AT LEAST A PORTION OF STEEL EXPORTS TO THE SOVIET UNION.

4. PATOLICHEV CONTINUED TO PRESS THE GOJ TO SIGN A LONG TERM ECONOMIC COOPERATION AGREEMENT BUT MITI MINISTER TANAKA AGAIN DEFLECTED THE REQUEST, STATING THERE WAS NO NEED AND THAT A PEACE TREATY WOULD HAVE TO PRECEDE A GOVERNMENTAL AGREEMENT. ON THE OTHER HAND, IT WAS AGREED TO HOLD THE 7TH JOINT ECONOMIC COMMITTEE MEETING IN TOKYO THIS SEPTEMBER. THE SOVIETS OFFERED NEITHER THE JAPANESE NOR US ANY CLEAR PICTURE OF WHAT THEY WOULD LIKE TO SEE ON THE AGENDA. KRUCHINEN SAID A THIRD FOREST PRODUCTS PROJECT, A LIMITED OFFICIAL USE

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YAKUTSK STEAM COAL, AND A FURTHER ENLARGEMENT OF WRANGLE PORT ARE UNDER CONSIDERATION. HE ADDED THAT CONCRETE PROPOSALS FOR MAJOR NEW PROJECTS ALONG THE BAAM RAILROAD ARE "AT LEAST" FIVE YEARS AWAY. THE SOVIETS ARE PARTICULARLY ANXIOUS FOR JAPAN TO INCREASE ITS INVOLVEMENT IN THE YAKUTSK GAS PROJECT, BUT APPEAR RESIGNED IN TOKYO AT LEAST, TO JAPANESE INSISTANCE THAT THE U.S. PARTICIPATE EQUALLY.

5. SIMILARLY THE JAPANESE HAVE AGAIN DECLINE TO EXTEND A GENERAL EXIMBANK CREDIT LINE TO THE SOVIETS. VICE MINISTER IVANEV SIGNED AGREEMENTS FOR DOLS 340 MILLION IN JAPAN EXIM CREDITS FOR THREE FERTILIZER PLANTS AND EIGHT AMMONIA UNITS. EXIM PRESIDENT SUMITA HAS SAID FURTHER EXTENSIONS WILL BE ON A CASE BY CASE BASIS.
MANSFIELD

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